

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Genesee County Road Commission	County Genesee
Audit Date 9/30/05	Opinion Date 2/3/06	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).		✓	

Certified Public Accountant (Firm Name) Plante & Moran, PLLC			
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
Accountant Signature 		ZIP 48502	Date 3-14-06

**Genesee County Road Commission
Flint, Michigan**

Financial Report with Supplemental Information

September 30, 2005

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Independent Auditors' Report

Board of Road Commissioners
for the County of Genesee
Flint, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Road Commission for the County of Genesee, a component unit of Genesee County, as of September 30, 2005 and for the year then ended, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these component unit basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Road Commission at September 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and information in the required supplemental information section are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The financial statements in the "other supplemental information" section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statements have been subjected to auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2006 on our consideration of the Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

February 3, 2006

Management Discussion and Analysis

**Genesee County Road Commission
Management Discussion and Analysis
September 30, 2005**

Our discussion and analysis of Genesee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended September 30, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities – this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional non-financial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operating Fund. All of the Road Commission's activities are accounted for in this fund. The General Operating Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 12% or \$12,006,571, from \$98,249,679 to \$110,256,250 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The restricted net assets increased by \$2,592,839 during 2005. The primary reason for the increase was an increase in federal, state and local support for road projects.

The investment in capital assets net of related debt increased by \$9,413,732. The increase in net assets is primarily the result of recording the \$10,306,351 of infrastructure improvements made during the year.

Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Current and other assets	\$ 63,729,134	\$ 60,164,134
Capital assets	<u>54,918,312</u>	<u>46,755,777</u>
Total assets	<u>118,647,446</u>	<u>106,919,911</u>
Liabilities		
Long-term debt outstanding	2,751,953	3,765,617
Other liabilities	<u>5,639,243</u>	<u>4,904,615</u>
Total liabilities	<u>8,391,196</u>	<u>8,670,232</u>
Net assets		
Invested in capital assets	51,152,695	41,738,963
Restricted for road projects	<u>59,103,555</u>	<u>56,510,716</u>
Total net assets	<u>\$110,256,250</u>	<u>\$ 98,249,679</u>

Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Program Revenues		
Charges for Services	\$ 5,373,418	\$ 5,990,266
Capital Grants	30,853,346	31,303,834
General Revenues		
Interest Income	1,292,021	653,363
Miscellaneous	582,803	566,570
Gain on sale of capital assets	178,206	337,124
Transfer in – primary government	<u>26,814</u>	<u>260,000</u>
Total revenues	<u>38,306,608</u>	<u>39,111,157</u>
Expenses		
Maintenance	20,933,471	19,541,542
Equipment (net)	1,345,799	1,389,628
Administrative	3,016,846	2,949,183
Other	797,314	618,878
Interest	<u>206,607</u>	<u>267,935</u>
Total expenses	<u>26,300,037</u>	<u>24,767,166</u>
Change in Net Assets	<u>\$12,006,571</u>	<u>\$14,343,991</u>

Road Fund Highlights

The Road Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2005, the fund balance of the General Operating Fund increased \$2,990,740 as compared to an increase of \$4,612,946 in the fund balance for the year ended September 30, 2004. Total revenues were \$38,661,021, a decrease of \$467,394 as compared to the previous year. This change in revenues was the result of a change in the trailer tax made in the prior year. Total expenditures were \$35,697,095, an increase of \$358,706 as compared to the previous year. This change in expenditures is due primarily to a decrease in heavy maintenance projects and a slight increase in construction projects.

Budgetary Highlights

Genesee County Road Commission's budget is a dynamic document. Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$44,752,601, lower than the original budget primarily due to projections for federal and state funded road projects that were delayed for various reasons. The actual revenue recognized during 2005 was less than the final amended budget by \$101,477.

The final amended expenditure budget for 2005 was \$43,684,146, lower than the original budget primarily due to projections for federal and state funded road projects that were delayed for various reasons as well as an increase in maintenance expenditures. The actual expenditures recognized during 2005 were less than the final amended budget by \$2,023,762. There were no unfavorable variances in any expenditure line-items.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2005, the Road Commission had \$54,918,312 invested in capital assets as follows:

	<u>2005</u>	<u>2004</u>
Land and improvements	\$ 943,748	\$ 882,242
Buildings and improvements	7,816,053	7,625,996
Road equipment	19,158,456	18,909,759
Other equipment	2,308,129	2,207,017
Infrastructure	50,394,973	40,040,712
Construction in progress	1,040,922	-
Depletable assets	<u>1,210</u>	<u>1,210</u>
Total capital assets	81,663,491	69,666,936
Accumulated depreciation	<u>(26,745,179)</u>	<u>(22,911,159)</u>
Net capital assets	<u>\$ 54,918,312</u>	<u>\$ 46,755,777</u>

Current year's major additions included the following:

Road equipment	\$ 1,318,781
Infrastructure - roads	10,306,351

Debt Highlights

At the year end, the Road Commission had \$3,765,617 in bonds and installment purchase agreements versus \$5,016,814 in the previous year, a decrease of 25%.

There was no new debt issued during 2005. The Road Commission paid off one bond agreement during 2005.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in notes to the financial statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. Unfavorable economic conditions may continue to affect crude oil prices, which could impact the Road Commission's cost of fuel as well as material costs for maintenance projects. The Road Commission derives approximately 60% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive 5% less in 2006 compared to 2005.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Genesee County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Genesee County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director of Finance, Genesee County Road Commission, at 211 W. Oakley St., Flint, Michigan 48503 or visit us on the Internet at www.gcrc.org.

Government-wide Financial Statements

Genesee County Road Commission
Statement of Net Assets
September 30, 2005

Assets

Cash and cash equivalents:	
Unrestricted	\$ 46,676,868
Restricted-escrow	834,593
Receivables:	
Accounts	336,271
Special assessments:	
Regular	3,025,571
Special projects	4,429,449
Due from other governments:	
Michigan Transportation Fund	3,826,032
State Trunkline maintenance	89,867
State Transportation Department-other	1,031,505
Township road agreements	1,687,612
Other	657,249
Inventory:	
Road materials	854,848
Equipment materials	242,017
Surplus property	162
Prepaid items	37,090
	<hr/>
Current assets	63,729,134
Capital assets not being depreciated	1,520,948
Capital assets (net of accumulated depreciation)	53,397,364
	<hr/>
Total assets	118,647,446

Liabilities

Current liabilities:	
Accounts payable	2,078,290
Other accrued liabilities	744,844
Payable from restricted assets:	
Deposits - escrow	830,593
Advances - State of Michigan	446,997
- Other	483,052
Due to other governments	41,803
Bonds payable - due within one year	945,000
Installment purchase agreements payable - due within one year	68,664
Non current liabilities:	
Bonds payable - due in more than one year	2,385,000
Installment purchase agreements payable - due in more than one year	366,953
	<hr/>
Total liabilities	8,391,196

Net Assets

Invested in capital assets (net of related debt)	51,152,695
Restricted for road projects	59,103,555
	<hr/>
Total net assets	\$ 110,256,250

The notes to financial statements are an integral part of this statement.

**Genesee County Road Commission
Statement of Activities
For the Year Ended September 30, 2005**

Program expenses:

Primary Road Maintenance	\$ 6,990,608
Local Road Maintenance	8,949,884
State trunkline	4,992,979
Equipment Expense-net	1,345,799
Administrative Expense-net	3,016,846
Other	797,314
Interest on long term debt	206,607

Total program expenses	<u>26,300,037</u>
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Program revenues:

Capital Grants:	
Federal grants	1,760,776
State grants	24,962,196
Contributions from local government	4,130,374
Charges for services	5,373,418

Total program revenues	<u>36,226,764</u>
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Net program revenues	<u>9,926,727</u>
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General revenues:

Investment earnings	1,292,021
Miscellaneous	582,803
Gain on sale of capital assets	178,206
Transfers in - Primary government	26,814

Total general revenues and transfers in	<u>2,079,844</u>
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Change in net assets	<u>12,006,571</u>
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Net assets:

Beginning of year - as restated	<u>98,249,679</u>
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End of year	<u><u>\$ 110,256,250</u></u>
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The notes to financial statements are an integral part of this statement.

**Genesee County Road Commission
Balance Sheet
Governmental Fund- General Operating Fund
September 30, 2005**

Assets

Cash and cash equivalents:

Unrestricted	\$ 46,676,868
Restricted - escrow	834,593

Receivables:

Accounts	336,271
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Special assessments:

Regular	3,025,571
Special projects	4,429,449

Due from other governments:

Michigan Transportation Fund	3,826,032
State Trunkline maintenance	89,867
State Transportation	
Department - other	1,031,505
Township road agreements	1,687,612
Other	657,249

Inventory:

Road materials	854,848
Equipment materials	242,017
Surplus property	162

Prepaid items	<u>37,090</u>
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Total assets	<u><u>\$ 63,729,134</u></u>
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The notes to financial statements are an integral part of this statement.

Liabilities

Accounts payable	\$ 2,078,290
Other accrued liabilities	404,861
Payable from restricted assets:	
Deposits - escrow	830,593
Advances - State of Michigan	446,997
- Other	483,052
Due to other governments	41,803
Deferred revenue -	
Special assessments and other	<u>7,455,020</u>
Total liabilities	<u>11,740,616</u>

Equity and Other Credits

Fund balance:

Reserved:

Prepaid items

37,090

Inventory

1,097,027

Unreserved:

Designated for:

Primary road expenditures

49,836,472

Local road expenditures

629,121

Designated for self insurance

388,808

Undesignated

-

Total equity and other credits

51,988,518Total liabilities, equity, and
other credits\$ 63,729,134Amounts reported for governmental activities in the
statement of net assets are different because:

Fund balance reported- Governmental Fund

\$ 51,988,518

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the funds.

54,918,312

Other long-term assets are not available to pay for current-period
expenditures and, therefore, are deferred in the funds

7,455,020

Accrued liabilities

(339,983)

Long-term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the funds(3,765,617)

Net assets of governmental activities

\$ 110,256,250

**Genesee County Road Commission
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended September 30, 2005**

Revenues:	
Permits	\$ 451,919
Intergovernmental -	
Federal sources	1,760,776
State sources	24,962,196
Local sources	4,130,374
Charges for services	5,031,255
Interest and rents	1,292,021
Other	<u>1,032,480</u>
Total revenues	<u>38,661,021</u>
Expenditures:	
Current -	
Construction	1,759,640
Heavy maintenance	8,866,377
Maintenance	13,202,789
State trunkline	4,992,979
Equipment - net	1,334,111
Administrative	2,940,213
Other	797,314
Capital outlay - net	345,868
Debt service	<u>1,457,804</u>
Total expenditures	<u>35,697,095</u>
Excess of revenues over expenditures	<u>2,963,926</u>
Other financing sources:	
County appropriation	<u>26,814</u>
Excess of revenues and other sources over expenditures	2,990,740
Fund balance - beginning of year	<u>48,997,778</u>
Fund balance - end of year	<u><u>\$ 51,988,518</u></u>

The notes to financial statements are an integral part of this statement.

**Genesee County Road Commission
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
For the Year Ended September 30, 2005**

Amounts reported for governmental activities in the statement of activities (page 5) are different because:

Net change in fund balances - total governmental funds (page 8)	\$ 2,990,740
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	8,162,535
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The effect of expenses for accrued expenses	(16,674)
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The effect of revenues on the modified accrual basis in the combined statement of revenues that do not provide current financial resources.	(381,227)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets.

This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>1,251,197</u>
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Change in net assets of governmental activities (page 5)	<u><u>\$12,006,571</u></u>
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The notes to financial statements are an integral part of this statement.

Notes to Financial Statements

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

1. Summary of significant accounting policies

The accounting policies of the Genesee County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental Units. The following is a summary of the significant accounting policies used by the Road Commission:

A. Reporting entity

The Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the Genesee County Board of Commissioners. The Road Commission may not issue debt without the Genesee County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Genesee County Road Commission, a discretely presented component unit of Genesee County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Road Commission. There is only one fund reported in the government-wide financial statements.

The statement of net assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense is those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, if any and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provision. Major individual governmental funds are reported as separate columns in the fund financial statements.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

1. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, liabilities, and net assets or equity

Bank deposits and investments:

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Fair value is determined based on quoted market prices.

Inventories:

Inventories are priced at costs as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

Prepaid expenses:

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both government-wide and fund financial statements.

Capital assets:

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

1. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

Capital assets: - (continued)

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired since September 30, 2001 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Genesee County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure in the statement of net assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before September 30, 2001 during the year ended September 30, 2006.

Depreciation:

Depreciation is computed on the straight-line method for all assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Engineering department	4 to 10 years
Office equipment	4 to 10 years
Infrastructure – roads	8 to 30 years
Infrastructure – bridges	12 to 50 years

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated absences (vacation and sick leave):

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused personal leave and vacation under formulas and conditions specified in the contracts.

As a result, it is the Road Commission's policy to permit employees to accumulate earned but unused personal and vacation pay benefits. All personal and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee termination as of year-end.

Deferred Revenue:

Deferred revenue is those where asset recognition criteria have been met, but for which revenue criteria have not been met. The deferred revenue relates to long term receivables (mainly special assessments) which are unavailable to finance current year expenditures.

2. Stewardship, compliance and accountability

Budgetary procedures:

The Road Commission Manager/Director prepares from data submitted by the administrative staff a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and resources to finance them.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

2. Stewardship, compliance and accountability – (continued)

Budgetary procedures: - (continued)

Prior to September 30, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution. All amendments to the budget must have direct approval of the Board of County Road Commissioners.

The Road Commission's approved budget was adopted by departments for expenditures. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act.

The departmental budget does not recognize revenues or expenditures in the accounting reporting format recommended by the Uniform Accounting Procedure Manual for Michigan County Road Commissions in that bond proceeds are not classified separately from revenues as other financing sources and expenditures are not classified separately as current, capital outlay and debt service. Also, the departmental budget does not recognize revenue credits as offsets against expenditures but, recognizes the amounts as revenue; and depreciation or depreciation credit is not recognized.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated. The Road Commission complied with this requirement as reported on the Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual.

Budget violations:

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for the budget. There were no budget violations for the year ended September 30, 2005.

3. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Commission has designated two banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Commission's deposits and investment policies are in accordance with statutory authority.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

3. Deposits and investments – (continued)

The Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Commission had \$36,495,665 of bank deposits (checking and high balance savings accounts) that were uninsured and uncollateralized. The Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the commission evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Commission's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. gov or agency bond or notes (sweep)	\$ 11,949,481	Counterparty

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Commission's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Sweep account	\$ 11,949,481	3 months

4. Capital assets

Capital asset activity of the Genesee County Road Commission for the current year was as follows:

	<u>Balance 10-01-04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9-30-05</u>
Capital assets not being depreciated:				
Land	\$ 478,816	\$ -	\$ -	\$ 478,816
Construction in progress	-	1,040,922	-	1,040,922
Depletable assets	1,210	-	-	1,210
Subtotal	480,026	1,040,922	-	1,520,948

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

4. Capital assets – (continued)

	Balance <u>10-01-04</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>9-30-05</u>
Capital assets being depreciated:				
Land improvements	403,426	61,506	-	\$ 464,932
Buildings and improvements	7,625,996	190,057	-	7,816,053
Road equipment	18,909,759	1,318,781	1,070,084	19,158,456
Shop equipment	443,059	20,878	11,814	452,123
Engineering equipment	102,746	-	-	102,746
Yard and storage equipment	498,964	-	-	498,964
Office equipment	1,148,840	115,515	23,467	1,240,888
Lab equipment	13,408	-	-	13,408
Infrastructure – roads	38,479,304	10,306,351	-	48,785,655
Infrastructure – bridges	1,561,408	47,910	-	1,609,318
Subtotal	<u>69,186,910</u>	<u>12,060,998</u>	<u>1,105,365</u>	<u>80,142,543</u>
Less Accumulated depreciation:				
Land improvements	119,074	19,629	-	138,703
Buildings and improvements	3,509,449	295,692	-	3,805,141
Road equipment	13,708,031	1,988,950	1,068,017	14,628,964
Shop equipment	295,617	23,502	11,814	307,305
Engineers' equipment	81,536	3,536	-	85,072
Yard and storage equipment	491,635	2,255	-	493,890
Office equipment	767,739	92,447	15,814	844,372
Lab equipment	13,408	-	-	13,408
Infrastructure – roads	3,762,415	2,439,282	-	6,201,697
Infrastructure – bridges	162,255	64,372	-	226,627
Subtotal	<u>22,911,159</u>	<u>4,929,665</u>	<u>1,095,645</u>	<u>26,745,179</u>
Net capital assets being depreciated	<u>46,275,751</u>	<u>7,131,333</u>	<u>9,720</u>	<u>53,397,364</u>
Total net capital assets	<u>\$46,755,777</u>	<u>\$ 8,172,255</u>	<u>\$ 9,720</u>	<u>\$54,918,312</u>

Depreciation expense:

Land improvements	\$ 19,629
Buildings and improvements	295,692
Road equipment	1,988,950
Shop equipment	23,502
Engineers' equipment	3,536
Yard and storage	2,255
Office equipment	92,447
Lab equipment	-
Infrastructure – roads	2,439,282
Infrastructure – bridges	64,372

Total

\$4,929,665

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

4. Capital assets – (continued)

Depreciation expense was charged to programs of the Genesee County Road Commission as follows:

Primary road maintenance	\$2,671,612
Local road maintenance	2,142,104
Equipment - net	23,502
Administrative	<u>92,447</u>
Total depreciation expense	<u>\$4,929,665</u>

5. Long-term debt

The Road Commission has the following governmental activity long-term debt outstanding at September 30, 2005:

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2005
MTF notes	\$ 4,415,000	\$ -	\$(1,085,000)	\$3,330,000
Capital leases	601,814	-	(166,197)	435,617
	<u>\$ 5,016,814</u>	<u>\$ -0-</u>	<u>\$(1,251,197)</u>	<u>\$3,765,617</u>

General obligations bonds and loans payable:

The outstanding bonds and notes payable at September 30, 2005, and matured interest thereon, are payable to the State of Michigan from the proceeds of state-collected taxes returned to the Road Commission as Act 51 monies. In the case of default, the state treasurer is authorized to withhold future disbursements of Act 51 monies due the Road Commission until the defaulted payments are recovered by the state.

For the Michigan Transportation Fund notes, special assessments have also been levied on specific properties abutting certain road improvements. The collection of the assessments have been pledged as additional security for the payment of the bonds.

Significant details regarding the long-term debt are as follows:

Obligation Payable	Final Payment Due	Interest Rate or Range	Annual Principal Payment or Range	Outstanding Balance September 30, 2005	Due Within One Year
Michigan Transportation					
Fund notes:					
1996 Issue	August 1, 2006	5.125%	\$ 95,000	\$ 95,000	\$ 95,000
1997 Issue	August 1, 2007	4.85	75,000	150,000	75,000
1998 Issue	August 1, 2008	3.80	445,000	1,335,000	445,000
1999 Issue	August 1, 2009	4.85 – 5.00	75,000	300,000	75,000
2000 Issue	August 1, 2010	4.60 – 4.80	105,000	525,000	105,000
2001 Issue	August 1, 2011	3.75 - 4.20	125,000	750,000	125,000
2002 Issue	August 1, 2012	2.80 – 3.70	25,000	<u>175,000</u>	25,000
Total notes				3,330,000	
Capital lease obligation				<u>435,617</u>	
				<u>\$3,765,617</u>	

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

5. Long-term debt -- (continued)

Future debt service requirements on bonds and notes:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended 9-30-2006	\$ 945,000	\$138,081	\$1,083,081
9-30-2007	850,000	98,810	948,810
9-30-2008	775,000	63,983	838,983
9-30-2009	330,000	32,625	362,625
9-30-2010	255,000	18,115	273,115
9-30-2011 - 9/30/2012	175,000	8,000	183,000
	<u>\$3,330,000</u>	<u>\$359,614</u>	<u>\$3,689,614</u>

Interest is payable on all obligations semi-annually.
Principal is paid on an annual basis.

Act 143, Public Acts of State 1943, provides that total bonds and notes outstanding under this act cannot exceed 40% of the sum of the revenues derived from state collected taxes returned to the county for county road purposes for the last preceding five calendar years and not specifically allocated for other purposes. As of September 30, 2005, the Road Commission is within the statutory limit of Act 143.

6. Capital leases

The Road Commission has entered into various lease purchase agreements to finance the acquisition of equipment with capitalized costs totaling \$1,008,523. These lease agreements qualify as capital leases for accounting purposes (agreement provides for either title transfer or bargain purchase option at end of the lease terms) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of its inception.

Commitments under this lease agreement provides for minimum annual payments as follows:

<u>Years Ending</u> <u>September 30,</u>	<u>Principal</u> <u>(Present Value)</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 68,664	\$ 14,559	\$ 83,223
2007	68,663	12,220	80,883
2008	70,949	9,933	80,882
2009	73,312	7,570	80,882
2010	75,753	5,129	80,882
2011	78,276	2,607	80,883
	<u>\$435,617</u>	<u>\$ 52,018</u>	<u>\$487,635</u>

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

7. Employee pension plan

Plan description

The Genesee County Road Commission participates in a contributory multi-employer defined benefit pension plan (Genesee County Employees Retirement System, also known as GCERS). The GCERS was organized pursuant to Section 12A of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12a), as amended. The GCERS is regulated under the Genesee County Employees Retirement System Ordinance, the sections of which have been approved by the state pension commission. The plan includes the following employer groups: Genesee County general unit, Road Commission, Water and Waste Services, Community Mental Health, City of Mt. Morris, and the Genesee District Library. GCERS issues a publicly available annual financial statement that includes financial statements and required supplementary information. Copies of this report can be obtained by writing to the Genesee County Employees' Retirement System, 1101 Beach Street, Flint, Michigan 48502.

The plan covers all eligible full-time employees of the Road Commission. The Road Commission's membership at December 31, 2005 was comprised of 172 active participants, 218 retirants and beneficiaries, and 4 inactive but vested people (information regarding the number of active participants, which were fully or partially vested was not available). In general with some exceptions, all employees are eligible for normal retirement as follows:

- Age 60 with 8 or more years of service
- With 25 or more years of service, regardless of age

Normal retirement benefits for Road Commission employees are based on the final average compensation (FAC) of the highest 3 years out of the total credited service times the sum of 2.4% for each of the first 25 years of service, plus 1.0% for the years of service in excess of 25 years. The maximum financed portion is 75% of FAC.

Funding policy

Covered Road Commission employees are required under the plan and contractual provisions to contribute to the system between 3.0% and 6.0% of their annual compensation depending on their job classification. The Road Commission contributions are based on actuarially determined amounts. There were no loans outstanding from the GCERS to the Road Commission for the year ended December 31, 2005.

The Road Commission forwarded \$359,047 of pension contributions withheld from employees during the year ended September 30, 2005.

Actuarial assumptions

The significant actuarial assumptions used to compute the actuarial accrued liabilities are as follows:

Valuation date	December 31, 2004
Actuarial cost method	Individual entry-age
Amortization method	Level percent of payroll
Remaining amortization period for credit	10 years
Asset valuation method	4 year smoothed market value
Investment rate of return	8.0%
Projected salary increases	5.00% to 9.03%
Includes inflation at	5.00%
Cost of living adjustments (COLA)	3.0% to 4.0%

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

7. Employee pension plan - (continued)

Annual pension cost

The Road Commission's Annual Required Contribution (ARC) and Annual Pension Cost (APC) for the year ended September 30, 2005 was \$1,549,087. All employer contributions made were equal to required contributions by GCERS. There was no accumulated Net Pension Obligation (NPO) at September 30, 2005. The Annual Pension Cost (APC), percentage of APC contributed, and Net Pension Obligation (NPO) for the years ended September 30, 2005 - 2002, are summarized as follows:

<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/02	\$1,248,102	100%	\$ -
12/31/03	1,364,887	100	-
12/31/04	1,549,087	100	-

The Plan's Schedule of Funding Progress and Schedule of Employer Contributions is summarized below:

Pension Plan
Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded (Over Funded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b-a)/c</u>
12/31/02	\$51,308,000	\$57,065,000	\$5,757,000	89.9%	\$8,072,662	71.3%
12/31/03	50,204,240	57,823,282	7,619,042	86.8	8,348,613	91.3
12/31/04	50,114,352	60,180,454	10,066,102	83.3	9,318,928	108.0

8. Federal grants

The Michigan Department of Transportation (MDOT) requires that road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2005, the federal aid received and expended by the Road Commission was \$1,093,953 for contracted projects and \$666,823 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more negotiated projects. As a result, the Road Commission was required to have a single audit for the year ended September 30, 2005.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

9. Summary of disclosure of significant contingencies

Contingent liabilities:

The Road Commission participates in a number of agreements with the State of Michigan, by which the Road Commission receives advances and reimbursements per the agreements. These advances and reimbursements are subject to audit by the State of Michigan. The amounts, if any, which may have to be paid back to the state cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

10. Risk management

The Road Commission is self-insured for sick and accident and workers' compensation. The payments for the respective claims and premiums for insurance to limit liability are charged to expenditures in the General Operating Fund.

The Road Commission is completely self-insured for sick and accident coverage for employees. Benefits are paid based on agreements with salaried, hourly, supervisory and exempt employees. The requirements for salaried, hourly and supervisory employees are that for time lost due to accident, the employee benefits start the first day of lost time and for illness, the benefits start the eighth calendar day of lost time. Benefits are paid equal to 66-2/3% of the employees gross wages not to exceed three years for salaried and hourly and eighteen months for supervisory. The requirements for exempt employees are that employee benefits start the first day of lost time for both illness, sick and accident, and are paid equal to 100% of the employees gross wage for one week and at 70% starting the eighth calendar day not to exceed three years. The Road Commission has \$388,808 designated to cover the self-insured liability for sick and accident. Claims are recorded as expenditures on a pay-as-you-go basis. The amount of incurred but not reported claims has not been determined but management expects any such amounts, if any, to be immaterial.

The Road Commission is a member of the Michigan County Road Association Workers' Compensation Fund for workers' compensation self-insurance. This program is administered by a Service Agency which furnishes claims review and claims processing. The amount of incurred but not reported claims has not been determined but management expects any such amounts, if any, to be immaterial.

In addition, the Road Commission is a voluntary member of the Michigan County Road Commission self-insurance pool. The pool provides loss protection for automobile liability, errors or omissions liability, and all other bodily injury, property damage, and personal injury liability. The Road Commissions' exposure is limited to \$25,000 per claim. The amount of incurred but not reported claims has not been determined but management expects any such amounts, if any, to be immaterial.

Amount of claims liability at October 1, 2004	\$ -
Incurred claims	1,231,746
Payments on claims	<u>(1,231,746)</u>
Amount of claims liability at September 30, 2005	<u>\$ -0-</u>

Genesee County Road Commission
Notes to Financial Statements
September 30, 2005

11. Post-employment benefits

The Road Commission provides post-retirement healthcare benefits to substantially all retirees. The benefits are required to be paid via a contract. The expenditures are recorded on a pay-as-you-go basis. Currently, 220 retirees are eligible to receive the benefits. The expenditures for post-employment healthcare benefits amounted to \$2,477,158.

Upcoming reporting change:

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2009. Management is currently assessing the impact of this new accounting standard on the Commission's financial statement for future reporting periods.

12. Restatement of Net Assets

The September 30, 2004 Net Assets were restated to correct an error. Management did not record a long term receivable from a township for road work performed. The restatement is detailed as follows:

Net Assets, September 30, 2004	\$94,422,349
Long term receivable	<u>3,827,330</u>
Net Assets, September 30, 2004, as restated	<u>\$98,249,679</u>

The long-term receivable and an off-setting amount is recorded in deferred revenue at the fund level because it is unavailable to fund current expenditures. However, at the government-wide level (full accrual) revenue is recognized for the entire amount (charges for services).

Required Supplemental Information

Genesee County Road Commission
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended September 30, 2005

	Original Adopted Budget	Final Amended Budget	Actual	Variance- Favorable (Unfavorable)
Revenues:				
Federal revenues	\$ 4,843,220	\$ 1,743,000	\$ 1,760,776	\$ 17,776
Michigan Transportation Fund	23,278,685	22,545,000	22,526,293	(18,707)
State highway funds	4,074,066	5,350,000	5,477,146	127,146
State revenue - urban	6,433,760	2,455,000	2,435,903	(19,097)
County raised revenues	4,226,180	4,148,000	4,157,188	9,188
Other revenues	11,058,173	8,051,501	7,841,388	(210,113)
Miscellaneous	225,000	460,100	452,430	(7,670)
Total revenues	54,139,084	44,752,601	44,651,124	(101,477)
Expenditures:				
Department:				
Engineering	1,290,254	1,260,304	1,133,036	127,268
Maintenance	8,261,460	9,457,460	9,443,989	13,471
Trunkline	3,815,526	4,219,826	4,159,730	60,096
State Specials	258,540	840,640	833,287	7,353
Equipment	5,424,519	5,511,119	5,486,411	24,708
Traffic Engineering & Permits	2,246,922	1,742,122	1,411,418	330,704
Operations	130,910	81,710	67,562	14,148
Personnel	296,011	283,541	261,164	22,377
Finance	588,450	459,003	426,176	32,827
Commissioners	20,800	20,800	20,352	448
Administration	304,466	299,066	293,219	5,847
Information Systems & Planning	360,999	399,959	383,079	16,880
Non-departmental	11,973,486	10,095,836	8,769,485	1,326,351
Road construction	20,664,760	9,012,760	8,971,476	41,284
Total expenditures	55,637,103	43,684,146	41,660,384	2,023,762
Excess (deficiency) of revenues over expenditures	(1,498,019)	1,068,455	2,990,740	1,922,285
Fund balance - beginning of year	48,997,778	48,997,778	48,997,778	-
Fund balance - end of year	\$ 47,499,759	\$ 50,066,233	\$ 51,988,518	\$ 1,922,285

Other Supplemental Information

Genesee County Road Commission
Statement of Revenues, Expenditures, and Changes in Fund Balances
General Operating Fund (by Road Fund)
For the Year Ended September 30, 2005

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Revenues:				
Permits	\$ -	\$ 354,632	\$ 97,287	\$ 451,919
Intergovernmental -				
Federal sources	1,735,945	24,831	-	1,760,776
State sources	19,149,418	5,812,778	-	24,962,196
Local sources	804,717	3,206,020	139,137	4,149,874
Charges for services	5,023,224	-	8,030	5,031,254
Interest and rents	1,065,978	191,116	34,927	1,292,021
Other	178,206	808,624	26,151	1,012,981
Total revenues	27,957,488	10,398,001	305,532	38,661,021
Expenditures:				
Construction	1,487,883	271,757	-	1,759,640
Heavy maintenance	5,635,884	3,230,493	-	8,866,377
Maintenance	6,113,840	7,088,949	-	13,202,789
State trunkline	4,992,979	-	-	4,992,979
Equipment - net	641,974	512,299	179,838	1,334,111
Administrative	1,633,375	1,306,838	-	2,940,213
Other	-	-	797,314	797,314
Capital outlay - net	345,868	-	-	345,868
Principal retirement	-	1,085,000	166,198	1,251,198
Interest and fiscal charges	-	183,720	22,886	206,606
Total expenditures	20,851,803	13,679,056	1,166,236	35,697,095
Excess (deficiency) of revenues over expenditures	7,105,685	(3,281,055)	(860,704)	2,963,926
Other financing sources (uses):				
County appropriation	-	26,814	-	26,814
Optional transfers	(3,209,865)	3,209,865	-	-
Total other sources (uses)	(3,209,865)	3,236,679	-	26,814
Excess (deficiency) of revenues and other sources over expenditures and other uses	3,895,820	(44,376)	(860,704)	2,990,740
Fund balances - beginning of year	47,014,937	687,058	1,295,783	48,997,778
Fund balances - end of year	\$ 50,910,757	\$ 642,682	\$ 435,079	\$ 51,988,518

**Genesee County Road Commission
Statements of Revenues and Other Sources
General Operating Fund
For the Year Ended September 30, 2005**

Revenues:

Permits	<u>\$ 451,919</u>
Federal sources -	
Federal aid -	
Urban including STP	1,214,564
C Funds-Federal	127,210
Homeland Security	23,841
High Priority	<u>395,161</u>
Total federal sources	<u>1,760,776</u>
State sources -	
Michigan Transportation Fund	
Engineering	10,000
Urban roads	3,876,127
Allocation	<u>21,076,069</u>
Total state sources	<u>24,962,196</u>
Local sources -	
City and village contributions	116,075
Township contributions	3,299,086
Other contributions	<u>715,213</u>
Total local sources	<u>4,130,374</u>
Charges for services -	
Trunkline maintenance	4,189,975
Trunkline non-maintenance	833,249
Salvage sales	5,964
Other	<u>2,067</u>
Total charges for services	<u>5,031,255</u>

(continued)

Genesee County Road Commission
Statements of Revenues and Other Sources (continued)
General Operating Fund
For the Year Ended September 30, 2005

Interest and rents -	
Interest earned	1,286,595
Property rental	<u>5,426</u>
Total interest and rents	<u>1,292,021</u>
Other -	
Special assessments	808,624
Gain on equipment disposal	178,206
Other	<u>45,650</u>
Total other	<u>1,032,480</u>
Total revenues	<u>38,661,021</u>
Other financing sources:	
County appropriation	<u>26,814</u>
Total revenues and other sources	<u><u>\$ 38,687,835</u></u>

**Genesee County Road Commission
Statements of Expenditures
General Operating Fund
For the Year Ended September 30, 2005**

Expenditures:

Construction -	
Primary roads and structures	\$ 1,487,883
Local roads and structures	<u>271,757</u>
Total construction	<u>1,759,640</u>
Heavy maintenance -	
Primary roads and structures	5,635,884
Local roads and structures	2,344,307
Special assessments	<u>886,186</u>
Total heavy maintenance	<u>8,866,377</u>
Maintenance -	
Primary roads and structures, winter and traffic control	6,113,840
Local roads and structures, winter and traffic control	<u>7,088,949</u>
Total maintenance	<u>13,202,789</u>
State trunkline -	
Trunkline	4,159,730
Special	<u>833,249</u>
Total state trunkline	<u>4,992,979</u>
Equipment -	
Direct	3,756,982
Indirect	2,115,915
Operating	928,542
Less - equipment rental	<u>(5,467,328)</u>
Total equipment	<u>1,334,111</u>

(continued)

**Genesee County Road Commission
Statements of Expenditures (continued)
General Operating Fund
For the Year Ended September 30, 2005**

Administrative -	
Administration	3,426,453
Less - handling charges	(4,521)
- state maintenance overhead	(453,922)
- purchase discounts	<u>(27,797)</u>
Total administrative	<u>2,940,213</u>
Other -	<u>797,314</u>
Capital outlay -	
Land improvements, building and equipment	2,747,661
Less - depreciation/depletion	(2,392,072)
- equipment retirement	<u>(9,721)</u>
Total capital outlay	<u>345,868</u>
Debt service -	
Principal retirement	1,251,198
Interest and fiscal charges	<u>206,606</u>
Total debt service	<u>1,457,804</u>
Total expenditures	<u><u>\$ 35,697,095</u></u>

February 27, 2006

To the Honorable Members of the Board of
The Genesee County Road Commission

We have audited the basic financial statements of the Genesee County Road Commission (Road Commission) for the year ended September 30, 2005, and have issued our report thereon dated February 3, 2006. As a part of the audit we have the following comments and recommendations relative to potential improvements to financial policies and procedures.

2005 Audit Comments

General Bank Account Reconciliation

This comment was communicated in the January 20, 2006 management letter to the Board. However, due to the small timeframe between the issuance of the 2004 audit and the fieldwork for the 2005 audit (14 days) this comment was still valid which is why it is repeated in this letter.

There was a delay in the completion of the bank reconciliation of the Road Commission's General Account during the year. It is due in part to the lack of timely information available about certain receipts received in the County Treasurer's Office but not yet coded to the Road Commission's general ledger account. We recommend that the Finance Director's office communicate often with the County Treasurer's Office whenever it appears information is needed to complete the General Bank Account timely.

Reassignment of the Purchasing Duties

The Finance Director is currently responsible for authorizing the purchasing of goods and services of the Road Commission. Typically, strong internal controls suggest that there should be a separation of the duties between the person responsible for authorizing the purchase of goods and services and the person authorizing payment for the goods and services. We understand that the Manager Director is considering reassigning the purchasing duties to another department. We concur with this decision and believe it will help to strengthen internal controls over the purchasing function within the Road Commission.

Township Road Agreements

The Road Commission has a particular process in place to bill the respective townships for their share of road projects including those that are formal special assessment districts. There are times when there is a gap in time (generally a couple of months) when the construction costs are incurred and the timing of the

February 27, 2006

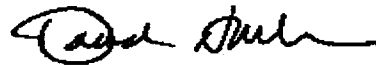
recording of the Township's share on the general ledger. However, there was a rare case where a Township's share of large special project was not recorded for a period encompassing a couple of years. Our understanding is that there was a communication gap between the department overseeing the project and the Finance department who is responsible for recording the receivable and establishing billing procedures.

We recommend that the process be reviewed for potential improvements and that consideration be given to recording an estimate of the township's share of projects at least at the fiscal year end close for the Road Commission.

If you have any questions regarding the above recommendation or need assistance in implementing the requirement please contact us.

Sincerely,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Tadd Harburn", with a stylized flourish at the end.

Tadd A. Harburn, CPA
Partner

**Federal Awards
Supplemental Information**

Genesee County Road Commission

September 30, 2005

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Independent Auditor's Report

To the Members of the Board
Genesee County Road Commission
Flint, Michigan

We have audited the basic financial statements of Genesee County Road Commission for the year ended September 30, 2005, and have issued our report thereon dated February 3, 2006. Those basic financial statements are the responsibility of the management of Genesee County Road Commission. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Genesee County Road Commission as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PLANTE & MORAN, PLLC

February 3, 2006

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Members of the Board
Genesee County Road Commission
Flint, Michigan

We have audited the financial statements of the Genesee County Road Commission as of and for the year ended September 30, 2005, and have issued our report thereon dated February 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Genesee County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Genesee County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PLANTE & MORAN, PLLC

February 3, 2006

Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

To the Members of the Board
Genesee County Road Commission
Flint, Michigan

Compliance

We have audited the compliance of the Genesee County Road Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2005. The major programs of Genesee County Road Commission identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Genesee County Road Commission's management. Our responsibility is to express an opinion on Genesee County Road Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Genesee County Road Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Genesee County Road Commission's compliance with those requirements.

In our opinion, the Genesee County Road Commission complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2005.

Internal Control over Compliance

The management of the Genesee County Road Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Genesee County Road Commission's internal control over compliance with requirements that could have a direct and

material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report is intended solely for the information of management, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

February 3, 2006

**Genesee County Road Commission
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>
U.S. Department of Housing and Urban Development: Passed through the Michigan Department of Transportation: Highway planning and construction	20.205	<u>\$1,736,935</u>
U.S. Department of Homeland Security: Passed through the Michigan State Police and Genesee County Emergency Management: SHSGP II Training Grant Homeland Security	97.004	<u>941 22,900</u>
Total		<u>23,841</u>
Total federal expenditures		<u>\$1,760,776</u>

Genesee County Road Commission
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2005

1. Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Genesee County Road Commission and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Reconciliation to fund financial statements

Revenue per fund financial statements:

Federal revenue	<u>\$1,760,776</u>
Federal revenue per schedule of federal awards	<u><u>\$1,760,776</u></u>

**Genesee County Road Commission
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2005**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Going concern explanatory paragraph included

_____ Yes X No

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Reportable condition(s) identified that are
not considered to be material weaknesses?

_____ Yes X None reported

Noncompliance material to financial statements
noted?

_____ Yes X No

Federal Awards

Internal control over major program(s):

Material weakness(es) identified?

_____ Yes X No

Reportable condition(s) identified that are
not considered to be material weaknesses?

_____ Yes X None reported

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Section 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

20.205

Highway Planning and Construction

Dollar threshold used to distinguish
between Type A and Type B programs

\$300,000

Auditee qualified as low-risk auditee

X Yes _____ No

(continued)

Genesee County Road Commission
Schedule of Findings and Questioned Costs – (continued)
For the Year Ended September 30, 2005

Section II – Federal Programs Auditing Findings

Findings relating to the financial statements reported in accordance with *Governmental Auditing Standards*:

None

Section III

Findings and questioned costs relating to federal awards:

None

**Genesee County Road Commission
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2005**

There were no prior year audit findings.